Ontario

Ontario Financing Authority

2012 Annual Report

Mandate

The Ontario Financing Authority (OFA) was established by the *Capital Investment Plan Act, 1993* (CIPA), and performs the following activities:

- conducts borrowing, investment and financial risk management for the Province of Ontario (the Province);
- manages the Province's debt;
- provides centralized banking and cash management and other financial services for the Province;
- advises ministries, Crown agencies and other public bodies on financial policies and projects;
- assists Crown agencies and other public bodies in borrowing and investing;
- acts as an intermediary for the Province in lending to certain public bodies;
- invests on behalf of certain public bodies; and
- with Ontario Power Generation Inc. (OPG), manages the investment activities of OPG's Used Fuel Segregated Fund and Decommissioning Segregated Fund.

The OFA also carries out the day-to-day operations of Ontario Electricity Financial Corporation (OEFC) and provides a broad range of financial services to Infrastructure Ontario.

Visit www.ofina.on.ca and subscribe to our email alert service to receive the latest Province of Ontario updates:

- Bond Issues
- Borrowing Program
- OFA Bulletin
- IR Presentations
- Webcasts
- Other events

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Statement from the Chair and the Chief Executive Officer

The OFA successfully completed its annual borrowing program in 2011–12 despite continuing challenges in global financial markets. Strong global investor demand for Canadian-dollar assets, the liquidity of Ontario benchmark bonds and continuing confidence in the Province allowed Ontario to borrow 81 per cent in the Canadian-dollar market in 2011–12, up from 59 per cent in 2010–11. We extended the weighted-average term to maturity of long-term Provincial debt issued over the past two years, which allowed the Province to lock in low interest rates for a longer period. This reduces refinancing risks and helps offset the impact of expected higher interest rates on the Province's interest on debt (IOD) costs.

We raised $34.9 billion on behalf of the Province and OEFC, completing the long-term borrowing requirements for the fiscal year. The borrowing program met or exceeded the performance targets for domestic and foreign borrowing. Total savings relative to the performance benchmarks for money market and debt management activities were $23 million.

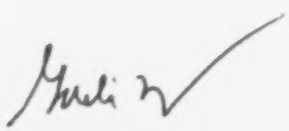
In 2011–12, the OFA assisted ministries in implementing cost-saving measures for program payments. The OFA also supported the government's priorities by providing financial advice and services to a number of public sector organizations. The OFA continued the review of business cases for borrowing requests from public bodies, such as colleges, school boards and Crown corporations. This resulted in loans to public bodies totalling $924 million. We also provided financial advice on government initiatives related to the electricity sector and a loan guarantee program to facilitate Aboriginal participation in energy projects. The OFA continued to provide analysis and advice in respect of a number of Infrastructure Ontario projects. The OFA supported the development and implementation of the Ontario Clean Energy Benefit.

In 2012–13, the OFA will continue to provide cost-effective borrowing, debt management and other financial services for the Ontario government. The long-term borrowing requirement is forecast at $34.9 billion. To meet the Province's borrowing requirements, we will continue to be flexible, monitoring domestic and international markets, issuing bonds in different terms and currencies and responding to investor preferences. Diversification of borrowing sources will continue to be a primary objective in 2012–13. Depending on market conditions, the OFA plans to borrow at least 70 per cent in the Canadian-dollar market in 2012–13. This is in line with the historical average of issuing approximately three-quarters in that market, but represents a considerable decline in the reliance on foreign markets during the global financial crisis beginning in 2008 and the European sovereign debt crisis.

We will also continue to engage in public-sector financing initiatives and provide advice and support on financial aspects of electricity sector developments.

We would like to thank the OFA staff for their hard work and the members of the Board of Directors (Board) for their advice and oversight during the 2011–12 fiscal year. We look forward to working with both staff and the Board in 2012–13.

Steve Orsini
Chair



Gadi Mayman
Chief Executive Officer

Management's Discussion and Analysis

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Management's Discussion and Analysis

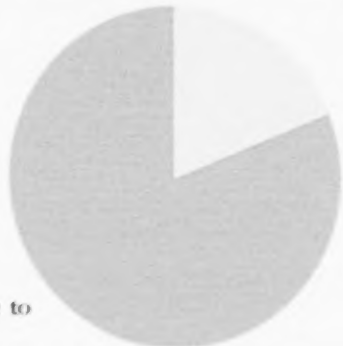
This section details management's discussion and analysis of the results achieved by the OFA for the Province in 2011–12 and its objectives for 2012–13.

Capital Markets Activities

Borrowing Program

Long-term borrowing for 2011–12 totalled $34.9 billion. The weighted-average term to maturity of long-term Provincial debt issued has been extended significantly over the past two years. In 2011–12, it was 13.0 years, slightly longer than 12.8 years for 2010–11, and much longer than 8.1 years for 2009–10. This continuation of the extension of the term to maturity allowed the Province to lock in low interest rates for a longer period, which reduces refinancing risks and helps offset the impact of expected higher interest rates on the Province's IOD costs.

Borrowing – All Markets

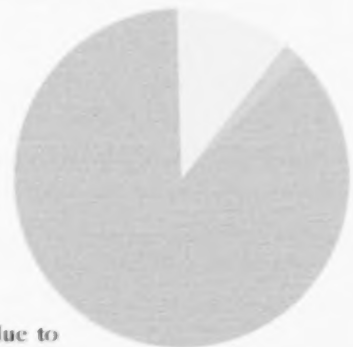


Total: $34.9 billion

Note: **Numbers may not add due to rounding.**

Strong global investor demand for Canadian-dollar assets, the liquidity of Ontario benchmark bonds and continuing confidence in the Province allowed Ontario to borrow 81 per cent in the Canadian-dollar market in 2011–12, up from 59 per cent in 2010–11 and well above the target of at least 60 per cent set out in the Province's *2011 Budget*.

Borrowing – Domestic Market



Total: $28.3 billion

Note: **Numbers may not add due to rounding.**

Investments

The OFA manages the Province's liquid reserve portfolio to optimize investment returns and to ensure sufficient funds are available to meet cash requirements. The average level of daily liquid reserves in 2011–2012 was $20.2 billion, net of collateral. In the normal course of business, the Province may pledge or receive collateral for derivative transactions and repurchase agreements.

The OFA also invests on behalf of certain public bodies to help increase their returns by streamlining investment processes and reducing investment costs. In 2011–12, the OFA provided investment services to a number of agencies, boards, commissions and other public bodies, including Infrastructure Ontario, the Pension Benefits Guarantee Fund, Ontario Trillium Foundation, Ontario Capital Growth Corporation and the Deposit Insurance Corporation of Ontario. Total funds managed were $2.8 billion.

With Ontario Power Generation Inc. (OPG), the OFA continued to manage the investment activities of the OPG's Used Fuel Segregated Fund and the Decommissioning Segregated Fund established under the Ontario Nuclear Funds Agreement (ONFA). As at March 31, 2012, the combined market value of the funds was $12.4 billion compared to $11.7 billion at March 31, 2011 and $4.9 billion when the funds were formally established in 2003.

There are currently 22 external investment managers retained to invest ONFA funds in bonds, equities and global infrastructure. For the 12 months ended March 31, 2012, the funds' rate of return was 4.26 per cent, ahead of the market benchmark of 3.91 per cent. Since inception, the funds have returned 6.49 per cent annualized, outperforming the long-term target annualized rate of return of 5.25 per cent. This target is a real rate of return of 3.25 per cent annually, calculated by adding 3.25 to the change in the Ontario Consumer Price Index.

Borrowing and Debt Management

The OFA manages the debt of the Province and OEFC.

Total debt, which represents all borrowing without offsetting financial assets, was $257.5 billion, interim as at March 31, 2012, compared to $236.6 billion as at March 31, 2011, and a forecast of $257.9 billion in the *2011 Budget*.

Total Debt Composition

$257.5 billion

Ontario's net debt is the difference between total liabilities and total financial assets. Ontario's net debt is projected to be $237.3 billion as at March 31, 2012 (March 31, 2011, $214.5 billion). This projection for March 31, 2012 is $4.2 billion below the forecast of $241.5 billion in the *2011 Budget*. It includes the broader public sector's (BPS) net debt of $14.8 billion (March 31, 2011, $13.6 billion).

Prudent risk management policies and practices mitigate the financial risks inherent in managing large debt and liquid reserve portfolios. A variety of financial instruments, such as swaps and options, are used to manage exposures to fluctuations in interest rates and foreign currency exchange rates. The OFA uses derivatives for hedging purposes to manage its foreign exchange and interest rate risks. The OFA's derivatives policy does not permit the creation of leverage using derivatives. The Province's financial risks are monitored on a continuous basis, and these risk exposures are marked-to-market daily and audited annually.

Risk management policies are reviewed annually and amendments are approved by the Board.

Performance

The OFA monitors and measures the performance of the borrowing, debt management and liquid reserve programs. The key performance objective in these times of global financial uncertainty is to ensure that the Province always has sufficient liquidity to meet its financial requirements, while minimizing IOD costs. By completing the borrowing program in a timely and cost-effective manner, the OFA succeeded in meeting this performance target. Interim IOD is forecast at $10.1 billion, $0.2 billion below the Province's 2011 Budget forecast of $10.3 billion.

The performance of long-term fixed rate borrowing for 2011–12 is also measured by comparing the all-in borrowing cost against the statistical distribution of benchmark interest rates observed during the year, with the objective being to attain a low percentile rank. Regular long-term fixed rate borrowing achieved a 53 percentile rank, within the target range of 45–55. Strategic foreign borrowing, which consists of large debt issues swapped to Canadian dollars, achieved a 66 percentile rank, within the target range of 50–75 percentile established for that program.

The debt management program's performance is evaluated based on a comparison of program savings to a risk-based performance target, with $9 million in gains or more deemed to be first quartile. In 2011–12, the debt management program experienced a loss of $1 million.

The performance of liquid reserve investments (money market program) is measured relative to the returns of a custom benchmark with a term of 45 days. The target is ±2 basis points versus the benchmark. The program returned 11 basis points more than the 45-day benchmark. Actual liquid reserve investment performance was $24 million better than the benchmark for 2011–12.

Market Risk

Market risk is the risk of loss due to changes in interest and foreign exchange rates.

The OFA aims for a balanced debt maturity profile for the Province to mitigate the interest rate risk inherent in refinancing maturing debt and the floating-rate debt. The Province limits itself to a maximum net interest rate resetting exposure of 35 per cent of debt issued for Provincial purposes and a maximum foreign-exchange exposure of 5 per cent of debt issued for Provincial purposes.

The percentage of interest rate resetting exposure (net of liquid reserves) was 8.8 per cent of debt as at March 31, 2012. The foreign exchange exposure was 1.0 per cent of debt as at March 31, 2012.

All exposures were well within the Province's approved policy limits during 2011–12.

Credit Risk

Credit risk is the risk of loss due to default of bond issuers or counterparties of derivatives or other financial transactions. The lowest acceptable credit rating of counterparties for Ontario is A–. However, Ontario typically enters into swap transactions with new counterparties rated AA– or higher. Ontario's increased hedging transactions related to international borrowing has resulted in greater credit risk exposure to our derivative counterparties. In order to manage and mitigate credit risk associated with derivative transactions, the Province has negotiated swap collateral agreements known as Credit Support Annexes (CSAs) with nine of its derivatives counterparties and agreements on thresholds for posting collateral have been reached with another three, in anticipation of completing CSAs with them. The Province had CSAs signed with eight counterparties as of March 31, 2011. A CSA is a bilateral agreement between two parties that provides the terms and conditions for posting collateral in order to offset the credit exposure related to derivative transactions.

The Province's interim net credit risk exposure associated with the derivative portfolio as at March 31, 2012 was $288 million, compared to $422 million as at March 31, 2011. Net credit risk exposure represents the loss that the Province would incur if every counterparty to which the Province had credit risk exposure were to default at the same time, less the mitigating impact of netting provisions as prescribed in contractual master agreements.

As at March 31, 2012, 96 per cent of Ontario's credit exposure was to counterparties rated AA– or better, the same as at March 31, 2011.

Liquidity Risk

Liquidity risk is the risk liquid reserves will not be sufficient to meet the Province's cash requirements. This risk is controlled through the management of operational cash flows, liquid reserve levels and the short-term borrowing program.

The Province's Treasury bill and U.S. Commercial Paper programs have authorized limits of $30.5 billion and $5 billion, respectively. As at March 31, 2012, the outstanding borrowing under the Province's Treasury bill and U.S. Commercial Paper programs stood at $12.6 billion and $4.7 billion, respectively.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, systems or external events. The OFA manages operational risks through divisional procedures and contingency plans as well as appropriate staffing and training, all of which are reviewed on an ongoing basis. The OFA's Business Continuity Plan ensures critical operations are completed in a timely manner in the event of an unforeseen business disruption.

The reliability of information technology (IT) and computing systems is crucial to ensure the OFA carries out its mandate efficiently and effectively. Excluding scheduled maintenance, the Strategic Corporate Services Division of the OFA met its service level commitment, and ensured that the IT systems were never down more than four times a year for a period greater than 30 minutes for each occurrence during normal business hours. Systems were maintained at a high level during 2011–12.

Credit Rating Agency Relations

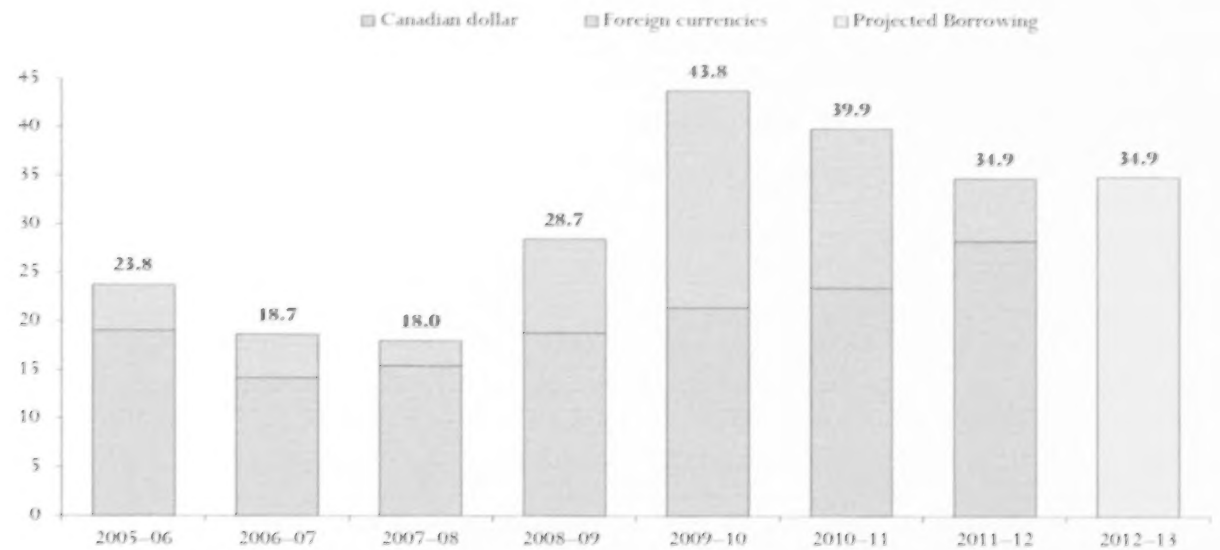
The Province requires ratings from recognized credit rating agencies to issue debt in the capital markets. The OFA ensures credit rating agencies understand government policies and budget direction as well as economic and fiscal performance, and properly reflect these in their reports and decisions. Through the OFA, the Province maintains a one-window contact with the rating agencies to ensure information provided to them is consistent and coordinated.

Following their review of the Province's 2012 Budget, the credit rating agencies released their reports on Ontario's rating. Standard & Poor's (S&P) placed Ontario's AA– rating on negative outlook on April 25, 2012; DBRS confirmed the Province's AA (low) rating with a stable outlook on April 26, 2012; and Moody's Investors Service (Moody's) downgraded Ontario's rating to Aa2 with a stable outlook on April 26, 2012.

The negative rating actions from S&P and Moody's mainly reflect their concerns over the Province's high debt burden; the risks surrounding the Province achieving its medium-term fiscal plan given the subdued growth outlook; the extended timeframe back to a balanced budget; and the minority government's ability to meet its cost-containment targets.

Capital Markets and Borrowing & Debt Management Objectives for 2012–13

The total long-term borrowing requirement for 2012–13 is forecast at $34.9 billion due to the Province's deficit, debt maturities and capital investments.



The OFA will continue to diversify the Province's domestic borrowing program using a combination of syndicated issues, bond auctions, floating-rate notes, medium-term notes and Ontario Savings Bonds. The Province plans to borrow at least 70 per cent in the Canadian-dollar market in 2012–13. This is in line with the historical average of issuing approximately three-quarters in that market, but represents a considerable decline in the reliance on foreign markets during the global financial crisis beginning in 2008, and the European sovereign debt crisis. For example, in 2009–10, more than 50 per cent of the Province's issuance was in international markets.

The debt buy-backs outlined in the Province's *2011 Ontario Economic Outlook and Fiscal Review* were completed, and will reduce long-term public borrowing and refinancing risk by $3.2 billion over the next two fiscal years.

Ontario will continue to be flexible, monitoring domestic and international markets, issuing bonds in different terms and currencies, and responding to investor preferences. Investor relations will remain a priority, with road shows planned for Canada and the U.S.

The Province will continue to use derivatives to reduce risk by hedging to minimize foreign exchange and interest costs when borrowing in international markets. This hedging process will become more complex due to the U.S. *Dodd-Frank Wall Street Reform and Consumer Protection Act* (Dodd-Frank) and Bank for International Settlements *Basel III* regulations. These initiatives may increase the cost of hedging through substantially higher capital charges and transaction costs. Derivatives trading liquidity will likely decline as well, making it more challenging to hedge the Province's large global bond issues.

The Volcker Rule, a section of Dodd-Frank, is intended to reduce systemic risk, with its focus on restricting banking entities from engaging in proprietary trading. In its current draft form, the Volcker Rule provides an exemption for proprietary trading in U.S. government bonds but contains no exemption for foreign government bonds. A major concern for Ontario and all other Canadian governments is that, without this exemption being extended to Canadian government bonds, Ontario's market could see substantially reduced liquidity. This could increase the future cost of borrowing and hedging. Ontario, the federal government, the Bank of Canada and other provinces have expressed their concerns to the relevant U.S. regulatory bodies, but the outcome is uncertain at this time.

Cost-effective and prudent debt management strategies will continue to be key objectives in 2012–13. The OFA will comply with risk management policies and portfolio program limits approved by the Boards of Directors of the OFA and OEFC. Risk management policies will be reviewed and revised as required in response to an evolving regulatory and capital markets environment. On behalf of the Province, the OFA will continue negotiating CSAs with other major counterparties.

The OFA will also manage the Province's liquid reserves conservatively. With OPG, the OFA will continue to administer ONFA investments consistent with the objectives of ONFA, so the Province's contingent liabilities under ONFA are prudently managed. As well, the OFA will continue to invest on behalf of certain public bodies.

Financial Reporting

The OFA also continued working with the accounting community to assess various accounting standards that could have an impact on the reporting of the Province's debt and IOD.

The fiscal 2012 Financial Statements of the OFA are presented using the net debt model as recommended by the Financial Statement Presentation standard of the Public Sector Accounting Board (PSAB). This represents a change from previous years, and ensures that the OFA financial statements meet PSAB recommendations.

Financial Reporting Objectives for 2012–13

The OFA will continue to monitor and assess new accounting developments of the International Accounting Standards Board, the Financial Accounting Standards Board in the U.S., the Accounting Standards Board as well as PSAB, that may impact financial reporting for the Province and its agencies.

The OFA will work closely with the Office of the Auditor General and the Office of the Provincial Controller in assessing the impact of the new financial instruments standard including issues related to synchronization and consolidation.

The OFA will continue to maintain a leading edge Business Continuity Plan to ensure that timely payments are made to the BPS (including hospitals, municipalities and school boards) to manage the Province's financial risks in real time, and to ensure that adequate funds are available to settle all of the Province's multibillion dollar financial transactions even in the event of unforeseen disruptions.

Cash Management and Banking Services

The OFA continued its strategic participation in and advice to the Executive Steering Committee and Payment Card Industry (PCI) Enterprise Coordination Office charged with the implementation of PCI Data Security Standards for the Ontario Public Service (OPS). Progress in accordance with the implementation plan will ensure full compliance with the applicable PCI requirements ensuring the security of all government clients who pay for goods and services by credit/debit card.

The OFA in conjunction with the Province's card services acquirer managed the transition from magnetic stripe to EMV (Europay, MasterCard and VISA) chip and pin-enabled technology for about 1600 point-of-sale terminals. The new technology significantly increases the security of card revenue processing and minimizes the opportunities for fraud.

The OFA also worked with the Ministry of Infrastructure and the Ministry of Finance, ensuring that budgeted capital expenditures were better integrated into the Province's financing table contributing to more timely and accurate IOD forecasts.

Cash Management & Banking Services Objectives for 2012–13

The OFA will work with partners and external service providers to ensure the continued progress of the mandatory implementation as well as the continued sustainment of PCI Data Security Standards across the OPS.

The OFA has issued a Request for Proposal for banking services for the Province, and the selection process will be completed later this fiscal year.

Financial Advice

The OFA was active in providing financial advice and implementation assistance to ministries, Crown agencies and other public bodies on corporate and electricity finance policies and initiatives.

In the *2012 Budget*, the Province announced that it was continuing to review ways to provide more efficient and effective public service delivery models and opportunities to maximize the returns on its major government business enterprises. The OFA assisted, and will continue to assist the Province in this review by providing financial analysis and advice with respect to potential opportunities for partnerships with the private sector and opportunities to maximize the returns on its government business enterprises and other assets.

Projects – Advisory Activities

The OFA continued to provide analysis and advice to the Working Committee on Hospital Working Fund Deficits on the development and implementation of appropriate accountability mechanisms in support of remedies for hospital working capital deficits.

The OFA continued to advise the Ministry of Economic Development and Innovation on venture capital investments made by the Ontario Capital Growth Corporation through the Ontario Venture Capital Fund and the Ontario Emerging Technologies Fund. The CEO of the OFA is a director on the board of Ontario Capital Growth Corporation.
The OFA continued to provide analysis and advice in respect of a number of Infrastructure Ontario projects. The CEO of the OFA is a director on the board of Infrastructure Ontario.

The CEO is on the government's Strategic Jobs and Investment Fund (SJIF) program, and OFA staff review and provide advice on applications received under SJIF, as well as on the due diligence process relating to the program.

Projects – Other Financial Services

The OFA's framework for financing public bodies mandates the OFA to provide long-term financing to school boards, colleges, hospitals and Provincial corporations, boards and commissions. Under this framework, the OFA provided loans to a number of public bodies, including Ontario colleges, school boards and crown corporations, totalling $924 million in 2011–12.

The OFA also evaluated forestry sector applications for grants and loan guarantees under the government's forestry sector support programs.

The OFA continued to work with Infrastructure Ontario and other Provincial representatives to seek out private partnership opportunities for the ownership and operation of ServiceOntario.

The OFA, on behalf of the Province, has received several applications for the Province's Aboriginal Loan Guarantee Program which are under review by staff and a third party due diligence provider. Two guarantees were approved in 2011–12 with construction of the projects now underway – the Lower Mattagami Project and the Mother Earth Renewable Energy Project.

The OFA provided services to OEFC, including facilitating loan agreements between OEFC and OPG to refinance existing maturities with OEFC and to finance new electricity supply projects.

The OFA assisted in the continued implementation of ONFA. OFA staff and an external consultant reviewed OPG's submission materials during the ONFA Reference Plan update process. It also reviewed OPG's annual budget for eligible expenditures under ONFA for nuclear waste management and the Pickering Units 2 and 3 safe storage state, and the OFA continued to monitor and provide due diligence on the Provincial Guarantee to the Canadian Nuclear Safety Commission (CNSC). The Province provides a guarantee to the CNSC in partial satisfaction of OPG's financial guarantee requirements to the CNSC on its decommissioning and nuclear waste obligations. As at March 31, 2012, the amount of the current direct Provincial guarantee to the CNSC was $1.5 billion. The OFA continues to monitor the requirement for a direct Provincial Guarantee, working with OPG and the CNSC as required.

The OFA supported the development and implementation of the Ontario Clean Energy Benefit (OCEB) to assist residential, farm and small business consumers with the transition to a cleaner electricity system by providing a benefit equal to 10 per cent of the total cost of electricity on their bills, including tax, effective January 1, 2011. The OFA also provided analysis and input into the development of the proposed changes to the OCEB announced in the Province's 2012 Budget to establish a monthly consumption cap of 3,000 kWh.

Financial Advice Objectives for 2012–13

In 2012–13, the OFA will continue to provide financial advice and assistance to the Minister of Finance, ministries, Crown agencies and other public bodies on financial policies and initiatives.

Activities will include advising ministries and agencies on cost-effective financing policies and structures, comprehensive advice on structuring and implementing financial transactions and accurate determination of value-for-money benchmarks.

Particular attention will be given to public infrastructure financing initiatives, including projects pertaining to the preparation for the Pan-American Games that will be hosted by Toronto in 2015. OFA staff will continue to assist the Ministry of Health and Long-Term Care with implementation of the hospital working funds initiative that was announced in the Province's 2011 Budget. The OFA will also provide advice on measures to support government initiatives and to facilitate cost-effective borrowing by public sector organizations.

Financial analysis and advice will be provided to the Minister of Finance on the electricity sector and the impact of related policy initiatives on the Province's finances (including those of OEFC) and the economy. The OFA will also continue to provide analysis and advice on driving efficiencies in Ontario's electricity sector. In addition, ongoing support will be provided for the implementation of ONEA and the OCEB. As required, the OFA will advise on electricity supply initiatives, including facilitating potential financing to OPG for new supply initiatives.

The OFA will continue to provide analysis and advice to the Minister of Finance on applications for the Aboriginal Loan Guarantee Program.

The OFA will continue to provide analysis and advice to the Strategic Jobs and Investment Fund, with the CEO on the ADM Review Committee, and the Ontario Capital Growth Corporation, where the CEO is a Board Member and Chair of the Audit Committee.

The OFA will also continue to provide analysis and advice on managing the Province's assets, including transforming ServiceOntario and the Ontario Northland Transportation Corporation.

The OFA will continue to provide ongoing analysis, advice and operational support related to the delivery of financial assistance to the North American automotive industry.

Summary of Financial Results

The Ontario Financing Authority (OFA) manages the Province's debt and investment of liquid reserves, and recovers its costs from the Province for these services. The OFA also provides financial services to Crown agencies and other public bodies, and recovers costs on a fee-for-service basis.

The OFA also administers the assets and liabilities of the former Ontario Municipal Improvement Corporation (OMIC). OMIC made loans of $79 million to various school boards due in 2010–2013, and financed the loans through direct borrowing from the Canada Pension Plan. More details are provided in Note 2 in the OFA's Financial Statements.

The outstanding balance of the loans to public bodies at March 31, 2012 was $5,205 million, a net increase of $602 million from $4,603 million in March 2011 (Note 6). The increase is largely due to additional loans to the School Boards of $635 million, the colleges of $52 million, the Ontario Power Authority of $45 million and the Ottawa Convention Centre of $40 million. These increases are partially offset by net repayments from the Federal Agencies – Auto Sector of $93 million; Infrastructure Ontario of $40 million; the Ontario Lottery and Gaming Corporation of $18 million; the Ontario Northland Transportation Commission of $15 million; the Royal Ontario Museum of $2 million and the Centennial Centre of Science and Technology of $1 million.

The OFA continued to provide investment management services to other public bodies in the aggregate amount of $2.8 billion (March 2011 – $3.1 billion) (Note 7).

The OFA recovered operating costs from agencies and related parties amounting to $4.6 million for the year-end ended March 31, 2012 (March 2011 – $5.1 million) (Note 8). The OFA's operating surplus for the period was $2,494,000 (March 2011 – $1,978,000). The income is mainly from the interest rate spread on loans to public bodies.

Prudent financial management on the part of the OFA ensured that actual expenditures were below the budget while interest revenues were greater, resulting in an operating surplus greater than the budgeted amount by $0.5 million.

The OFA has been involved in providing financial advice to the government on the review of government business enterprises as well as strategic advice on financial and investment policy issues associated with the electricity sector.

Financial Statements

Responsibility for Financial Reporting

Auditor's Report

Statement of Financial Position

Statement of Operations

Statement of Change in Net Assets

Statement of Cash Flow

Notes to Financial Statements

Responsibility for Financial Reporting

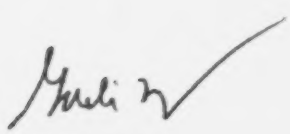
The accompanying Financial Statements of the OFA have been prepared in accordance with Canadian public sector accounting standards. The preparation of the Financial Statements necessarily involves the use of estimates based on management's judgment, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. The Financial Statements have been properly prepared within reasonable limits of materiality and in light of information available up to June 13, 2012.

Management maintains a system of internal controls designed to provide reasonable assurance that assets are safeguarded and that reliable financial information is available on a timely basis. The system includes formal policies and procedures and an organizational structure that provides for appropriate delegation of authority and segregation of responsibilities. An internal audit function independently evaluates the effectiveness of these internal controls on an ongoing basis and reports its findings to management and the Audit & Risk Management Committee of the Board.

The Board, through the Audit & Risk Management Committee, is responsible for ensuring management fulfils its responsibilities for financial reporting and internal controls. The Audit & Risk Management Committee meets periodically with management, the internal auditors and the external auditor to deal with issues raised by them and to review the financial statements before recommending approval by the Board.

The Financial Statements have been audited by the Auditor General of Ontario. The Auditor General's responsibility is to express an opinion on whether the Financial Statements are fairly presented in accordance with Canadian public sector accounting standards. The Auditor's Report, which appears on the following page, outlines the scope of the Auditor's examination and opinion.

On behalf of management



Gadi Mayman
Chief Executive Officer

Auditor's Report

Office of the Auditor General of Ontario
Bureau du vérificateur général de l'Ontario

Independent Auditor's Report

To the Ontario Financing Authority
and to the Minister of Finance

I have audited the accompanying financial statements of the Ontario Financing Authority, which comprise the statement of financial position as at March 31, 2012, and the statements of operations, change in net assets and cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Ontario Financing Authority as at March 31, 2012 and the results of its operations, changes in its net assets, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

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Toronto, Ontario
June 13, 2012

Jim McCarter, FCA
Auditor General
Licensed Public Accountant

Ontario Financing Authority
Statement of Financial Position
As at March 31, 2012

(in thousands of dollars)	2012	2011
FINANCIAL ASSETS		
Cash	$ 8,672	$ 3,916
Interest receivable – OMIC (Note 2)	996	1,819
Due from agencies & related parties (Note 8)	2,149	1,913
Due from the Province of Ontario	1,846	1,669
Loans receivable (Note 2)	44,235	73,865
	57,898	83,182
LIABILITIES		
Accounts payable	4,467	1,647
Interest payable – OMIC (Note 2)	996	1,819
Due to the Province of Ontario - Recoveries	1,147	1,274
Debt (Note 2)	44,235	73,865
Deferred revenue (Note 4)	2,006	2,400
	52,851	81,005
Net Financial Assets	**5,047**	**2,177**
NON-FINANCIAL ASSETS		
Tangible capital assets (Note 3)	2,001	2,377
	2,001	**2,377**
Accumulated surplus	$ 7,048	$ 4,554

See accompanying notes to financial statements.

Approved on behalf of the Board:

Steve Orsini
Chair

Gadi Mayman
Chief Executive Officer

Ontario Financing Authority
Statement of Operations
For the year ended March 31, 2012

(in thousands of dollars)	2012 Budget	2012 Actual	2011 Actual
REVENUE			
Cost recovery from the Province of Ontario (Note 5)	$ 20,126	$ 18,752	$ 19,995
Cost recovery from Agencies & related parties (Note 8)	5,104	4,621	5,073
Interest revenue (Note 2)	6,642	7,227	9,252
	31,872	30,600	34,320
EXPENSES			
Salaries, wages and benefits	18,894	18,754	18,503
Interest on debt (Note 2)	4,701	4,733	7,263
Administrative and general	5,101	3,559	5,466
Amortization for tangible capital assets (Note 4)	1,235	1,060	1,110
	29,931	28,106	32,342
Operating Surplus	1,941	2,494	1,978
Accumulated operating surplus at beginning of period	4,554	4,554	2,576
Accumulated operating surplus at end of period	$ 6,495	$ 7,048	$ 4,554

See accompanying notes to financial statements.

Ontario Financing Authority
Statement of Change in Net Assets
For the year ended March 31, 2012

(in thousands of dollars)	2012 Budget	2012 Actual	2011 Actual
Operating Surplus			
Acquisition of tangible capital assets (Note 3)	$ 1,941	$ 2,494	$ 1,978
Amortization of tangible capital assets (Note 3)	(1,210)	(684)	(434)
	1,235	1,060	1,110
	1,966	2,870	2,654
Increase in net assets	1,966	2,870	2,654
Net assets/(net debt) at beginning of year	2,177	2,177	(477)
Net assets at end of year	$ 4,143	$ 5,047	$ 2,177

See accompanying notes to financial statements.

Ontario Financing Authority
Statement of Cash Flow
For the year ended March 31, 2012

(in thousands of dollars)	2012	2011
Operating transactions		
Annual Surplus	$ 2,494	$ 1,978
Amortization of Tangible Capital Assets	1,060	1,110
Increase in due from agencies & related parties	(236)	(239)
Decrease in due from the Province (net of accounts payable)	2,643	19
(Decrease)/Increase in recoveries due to the Province	(127)	20
Decrease in deferred revenue	(394)	(694)
Cash provided by operating transactions	5,440	2,194
Capital Transactions		
Cash used to acquire tangible capital assets	(684)	(434)
Cash applied to capital transactions	(684)	(434)
Increase in cash	4,756	1,760
Cash at beginning of year	3,916	2,156
Cash at end of year	$ 8,672	$ 3,916

See accompanying notes to financial statements.

Ontario Financing Authority
Notes to Financial Statements
For the year ended March 31, 2012

BACKGROUND

The Ontario Financing Authority (the "OFA") was established as an agency of the Crown, on November 15, 1993, by the *Capital Investment Plan Act*, 1993 (the "Act"). In accordance with the Act, the OFA:

- conducts borrowing, investment and financial risk management for the Province of Ontario ("the Province");
- manages the Provincial debt;
- provides financial and centralized cash management services for the Province;
- advises ministries, Crown agencies and other public bodies on financial policies and projects;
- assists Crown agencies and other public bodies to borrow and invest money;
- acts at the direction of the Province in lending to certain public bodies;
- invests on behalf of some public bodies.

In addition, the OFA's objects include:

- providing such other financial services as are considered advantageous to the Province or any public body; and
- any additional objects as directed by the Lieutenant Governor in Council.

The OFA is a corporation established under the laws of Ontario. The OFA is exempt from federal and provincial income taxes under paragraph 149(1)(d) of the *Income Tax Act* (Canada).

1. SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting: Because the OFA is a government organization, these financial statements are prepared in accordance with Canadian public sector accounting standards.

Net Debt Presentation: Beginning fiscal 2012, OFA has adopted Section PS 1201, *Financial Statement Presentation* reflecting the net debt model recommended by Public Sector Accounting Board (PSAB). The following is a summary of significant differences for the OFA between March 31, 2011, as previously reported and restated financial statements:

The balance sheet is now called statement of financial position, segregating financial and non-financial assets; liabilities; net financial assets and accumulated surplus at the statement of financial position date.

The statement of net income and retained earnings has been replaced by the statement of operations. In addition, the statement of operations presents a comparison of actual and budgeted amounts for the current fiscal year.

A new statement of change in net assets has been prepared.

The statement of cash flows has also been prepared segregating operating and capital transactions.

Cash: Cash includes cash on deposit and highly liquid investments with maturities of less than one year. They are recorded at cost, which approximates current market value.

Tangible capital assets: Tangible capital assets are stated at cost. Amortization is provided using the straight-line method over the estimated useful life of the asset, as listed below.

Furniture and equipment	5 years
Computer hardware	3 years
Leasehold improvements	Term of lease plus one renewal period

Funding received from the Province and the Agencies for the acquisition of tangible capital assets is recorded as deferred revenue and amortized to cost recovery on the same basis as the tangible capital assets.

Measurement uncertainty: The preparation of these financial statements requires management to make estimates that are based on the best information available at the time of preparation of the financial statements.

2. LOANS RECEIVABLE, DEBT AND RELATED INTEREST

In accordance with the *Capital Investment Plan Act, 1993*, the Ontario Municipal Improvement Corporation (OMIC) assets and liabilities were transferred to the OFA on November 15, 1993. OMIC received loans from the Canada Pension Plan (CPP) which were used to make loans to municipalities and school boards under similar terms as its debt.

The maturities and average interest rates on both the outstanding loans receivable and outstanding debt are set out below:

(in thousands of dollars)

Maturing in:	Principal Maturing	Average Interest Rate (%)
2013	44,235	9.22

Interest payable to CPP of $1.0 million (March 2011 – $1.8 million) is equal to the interest receivable from the municipalities and school boards.

The $7.2 million (March 2011 – $9.3 million) interest revenue equals $4.7 million (March 2011 – $7.3 million) interest expense on the CPP borrowings, plus $2.5 million (March 2011 – $2.0 million) interest rate spread charged on loans to related parties as explained in Note 6 plus interest on the cash balance.

3. TANGIBLE CAPITAL ASSETS

The net book value (NBV) of tangible capital assets is as follows:

(in thousands of dollars)

	Cost	Accumulated Amortization	NBV March 31, 2012	NBV March 31, 2011
Furniture and equipment	$ 1,065	$ 790	$ 275	$ 450
Computer hardware	11,795	10,855	910	985
Leasehold improvements	1,747	931	816	942
Total	**$ 14,607**	**$ 12,606**	**$ 2,001**	**$ 2,377**

4. DEFERRED REVENUE

Deferred revenue represents the unamortized portion of the cost recovered from the Province and the Agencies for the acquisition of tangible capital assets and the amount of lease inducement to be amortized to operations over the remaining one-year term of the lease.

(in thousands of dollars)

	Tangible Capital Assets	Lease Inducement	Total
Balance, beginning of period	$ 2,377	$ 23	$ 2,400
Additions	684	–	684
Amortization	(1,060)	(18)	(1,078)
Balance, end of period	**$ 2,001**	**$ 5**	**$ 2,006**

The $1,060,000 amortization of deferred tangible capital asset revenue is included in the cost recovery from the Province of Ontario on the Statement of Operations, while the $18,000 amortization of deferred lease inducement is netted against administrative and general expense.

5. DEBT MANAGEMENT FOR THE PROVINCE

The OFA manages debt amounting to $257.5 billion as at March 31, 2012 and investments amounting to $35.2 billion as at March 31, 2012 on behalf of the Province, including the joint management of funds owned by Ontario Power Generation Inc. (OPG) under the *Ontario Nuclear Funds Agreement*. The Province, OPG and certain OPG subsidiaries entered into the agreement in March 2002 to set aside funds necessary to dispose of nuclear waste and used fuel and to decommission nuclear power stations. The agreement came into force on July 24, 2003.

Cost recovery from the Province for all debt management and investment activities for the year ended March 31, 2012 was $18.8 million (March 2011 – $20.0 million).

6. TRANSACTIONS WITH PUBLIC BODIES

The OFA provides financing to various public bodies on direction from the Province. As the OFA is directed by the Province to make these loans in furtherance of stated Provincial initiatives, and these loans are included in the Province's consolidated financial statements, these transactions are not reflected in these financial statements.

Funds for these loans are advanced to the OFA by the Province under credit facilities aggregating $14.5 billion expiring from 2027 to 2040. Principal repayments received from public bodies by the OFA are forwarded to the Province. The interest rates charged to public bodies will generally be slightly higher than the rate charged on the advances from the Province to fund the loans ("the spread").

The OFA will generally retain the spread in order to recover the administrative costs of managing these loans. In some cases the rate charged to the borrower will be similar to the rate that would be charged on the loan by a commercial lender which would reflect the relative risk associated with the loan.

Funds are generally advanced by the OFA to public bodies under interim financing arrangements consisting of a number of promissory notes for terms not exceeding one year. The promissory notes are later converted to term debt and repayment terms are finalized. As of March 31, 2012, the principal amounts receivable by the OFA on behalf of the Province represent debentures and short-term loans. In addition to the outstanding loans below, interest accrued on these loans amounted to $84.1 million (March 2011 – $72.9 million).

These are related party transactions, with the exception of those with the Corporation of the City of Windsor and the Federal Agencies-Auto Sector.

(in thousands of dollars)

	March 31, 2012	March 31, 2011
Centennial Centre of Science and Technology	$ 2,500	$ 3,000
Colleges of Applied Art and Technology	133,748	81,967
Corporation of the City of Windsor	17,184	17,184
Federal Agencies-Auto Sector	0	93,000
Niagara Parks Commission	6,019	6,271
Infrastructure Ontario	83,000	123,000
Ontario Lottery and Gaming Corporation	131,283	149,515
Ontario Northland Transportation Commission	11,996	27,241
Ontario Power Authority	75,000	30,059
Ottawa Convention Centre	40,000	–
Royal Ontario Museum	39,900	42,200
School Boards	4,664,769	4,029,781
Total	**$ 5,205,399**	**$ 4,603,218**

Loans to Public Bodies by the Province:

The Centennial Centre of Science and Technology is a Crown agency of the Province under the *Centennial Centre of Science and Technology Act*, 1990. The $2.5 million (March 2011 – $3.0 million) loan was made to fund the construction of the Agents of Change project, bears interest at 4.35% and matures in March 2017.

Colleges of Applied Arts and Technology have been loaned $134 million (March 2011 – $82 million) for various campus projects including new and expanded student residences, computer equipment, parking facilities, and an energy saving capital project. These loans bear interest ranging from 1.31 per cent to 5.49 per cent and mature from 2012 to 2040.

The Corporation of the City of Windsor is a municipality within the meaning of the *Municipal Act*. The financing provided is for the acquisition, design and construction of the Windsor Justice Facility consisting of a provincial division courthouse and city police headquarters. This is a 20-year loan bearing interest at 6.41 per cent and maturing in March 2021. The outstanding balance is $17.2 million (March 2011 – $17.2 million)

In 2009, the Province committed to provide one-third of the total Canadian financial assistance, to a maximum of $4,800 million, as part of a co-ordinated response with the Canadian and U.S. federal governments to support the restructuring of the North American automotive industry. The Province's one-third interest was initiated through a Loan Participation Agreement with Export Development Canada (EDC), a federal Crown Corporation. Since that time a combination of loan repayments, loan revaluations, loans exchange for equity and the subsequent sale of a portion of this equity has resulted in the Province of Ontario's financial statements reflecting a balance of nil loans receivable as at March 31, 2012, and $737 million (March 2011 – $737 million) as an equity investment in the auto sector.

The Niagara Parks Commission, a Crown agency of the Province, operating under *Niagara Parks Act, 1990*, has been provided a loan of $6.0 million (March 2011 – $6.3 million) to finance additional capital costs incurred for the redevelopment of phase I of Table Rock House in Queen Victoria Park, Niagara Falls. This bears interest at 5.07 per cent and matures in April 2027.

The Ontario Infrastructure and Lands Corporation (OILC) is a Crown agency of the Province under the Ontario *Infrastructure and Lands Corporation Act, 20011* and has been provided a Revolving Credit Facility to a maximum amount of $200 million maturing in June 2019. OILC has drawn $83 million (March 2011 – $123 million) bearing interest at rates ranging from 1.98 to 2.64 per cent.

The Ontario Lottery and Gaming Corporation (OLG) is a Crown agency of the Province under the *Ontario Lottery and Gaming Corporation Act, 1999*, and has been provided loans totaling $131 million (March 2011 – $150 million) to fund several projects, bearing interest at rates ranging from 1.31 to 3.22 per cent and maturing from January 2013 to May 2016.

The Ontario Northland Transportation Commission (ONTC) is a Crown agency of the Province under the *Ontario Northland Transportation Commission Act, 1990*. ONTC's total borrowing of$12.0 million (March 2011 – $27.2 million) matures from 2014 to 2031 and bears interest ranging from 4.90 to 6.29 per cent.

The Ontario Power Authority (OPA) is an independent non-profit corporation under the *Electricity Restructuring Act, 2004* and was provided a maximum $975 million credit facility to fund the Regulated Price Plan variance account. The credit facility expires on December 31, 2013. The Authority has drawn a total of $75 million (March 2011 – $30 million) bearing interest at1.19 per cent.

The Ottawa Convention Centre (OCC) is a Crown agency of the Province under the *Capital Investment Plan Act, 1993*, and has been provided a loan of $40 million (March 2011 – $0) for the purpose of providing term debt to finance part of the construction of the Ottawa Convention Centre. This is a 25-year loan, bears interest at 4.67 per cent and matures in September 2036.

The Royal Ontario Museum (ROM) is a Crown agency of the Province under the Special Act of the Ontario Legislature and has borrowed $39.9 million (March 2011 – $42.2 million) comprised of $20.2 million at fixed rate 5.04 per cent and $19.7 million at a floating rate currently at 2.77 per cent. All outstanding loans are scheduled to be repaid by March 2027.

School boards have been provided loans under various programs beginning in 2006. During the year ended March 31, 2012, school boards were provided with additional loans and made two semi-annual blended payments of principal and interest, leaving the total outstanding amount at $4,665 million (March 2011 – $4,030 million). These loans bear interest ranging from 2.42 to 5.38 per cent and mature from 2019 to 2037.

Committed Credit Facilities:

At the direction of the Province, the OFA has committed to finance a public body for which funds have not yet been advanced. The details are as follows:

The Deposit Insurance Corporation of Ontario (DICO) was provided a maximum $250 million revolving credit facility expiring on October 31, 2013 to ensure DICO's capacity to address systemic difficulties in the credit union system or the failure of large institutions that require resources above those in the Deposit Insurance Reserve Fund which is currently valued at approximately $95 million. All principal and interest is required to be repaid by December 31, 2024. DICO has not utilized this credit facility.

7. INVESTMENT MANAGEMENT FOR AGENCIES AND RELATED PARTIES

The OFA provides services, including investment management services to agencies, related parties and other public bodies as listed below in return for fees amounting to $206,000 for the year ended March 31, 2012 (March 2011 – $305,000). Funds managed on behalf of these entities totaled $2.8 billion at March 31, 2012 (March 2011 – $3.1 billion).

Deposit Insurance Corporation of Ontario
Northern Ontario Heritage Fund
Ontario Capital Growth Corporation
Ontario Immigrant Investor Corporation
Infrastructure Ontario
Ontario Trillium Foundation
Pension Benefits Guarantee Fund

8. DEBT MANAGEMENT FOR AGENCIES AND RELATED PARTIES

The OFA provides debt management services on a cost recovery basis to agencies and related parties as set out below:

Agencies:

Ontario Electricity Financial Corporation (OEFC)

The OFA provides financial services and advice on a cost recovery basis to OEFC and manages its debt portfolio of approximately $26.9 billion.

Infrastructure Ontario (IO)

The OFA provides financial services and advice on a cost recovery basis to IO and manages its debt of $4.5 billion including loans from the Province, a provincial agency and third parties.

Total costs recovered and receivables outstanding at March 31, 2012 are set out below:

(in thousands of dollars)

	March 31, 2012	March 31, 2011
Costs Recovered:		
Agencies:		
OEFC	$ 3,471	$ 3,693
IO	944	1,075
Other (Note 7)	206	305
Total	**$ 4,621**	**$ 5,073**
Receivables:		
Agencies:		
OEFC	$ 868	$ 923
IO	234	270
Other (Note 7)	45	81
Related parties (Note 6)	1,002	639
Total	**$ 2,149**	**$ 1,913**

9. FUTURE EMPLOYEE BENEFITS

The OFA provides pension benefits to its full-time employees through participation in the Public Service Pension Plan, which is a multi-employer defined benefit pension plan established by the Province of Ontario. The Ministry of Government Services (MGS) is responsible for funding the employer's contribution to the Pension Fund and accordingly, the OFA has no additional liability for these future costs. In addition, the cost of post-retirement, non-pension benefits is paid by MGS and is not reported in these financial statements.

10. CONTINGENCIES AND COMMITMENTS

At March 31, 2012, there were no claims under which the OFA would be financially liable. The Province continues to guarantee the term deposits issued by the Province of Ontario Savings Office prior to 2003.

11. COMPARATIVE FIGURES

Certain of the prior year's comparative figures have been reclassified to conform to the financial statement presentation adopted for the 2011–12 fiscal year.

Corporate Governance

Corporate Governance

Financial Reporting Requirements

Board of Directors

Corporate Governance

Overview

The OFA is an agent of the Crown and is classified by Management Board of Cabinet as an operational enterprise agency.

Corporate governance involves processes that permit the effective supervision and management of the OFA's activities by senior management, the Board of Directors and the Minister of Finance. It includes identifying individuals and groups responsible for activities and specifying their roles.

Accountability and Responsibilities

The OFA's accountability structure flows from its governing statute, CIPA. The Minister of Finance is the minister responsible for the administration of CIPA with respect to the OFA. CIPA, together with directives issued by Management Board of Cabinet, the Minister of Finance and the Public Service Commission relating to Crown agencies, form a framework under which the OFA is governed.

Each year, the Minister is required to submit the Annual Report to the Lieutenant Governor in Council and then table the report in the Legislature. In addition, the Minister reviews and approves the OFA's annual business plan. The Minister also maintains communications with the OFA, through its Chair, regarding government policies and expectations relevant to the OFA.

The Chair is accountable to the Minister of Finance for the performance of the OFA in fulfilling its mandate. CIPA requires that the Deputy Minister of Finance be the Chair of the OFA. The Chair is responsible for providing advice and information to the Minister with regard to the operation and affairs of the OFA. In addition, the Chair provides leadership and direction to the Board and the Chief Executive Officer (CEO), and ensures the OFA complies with applicable government policies and directives. As Deputy Minister of Finance, the Chair ensures organizational capacity in the Ministry to monitor the OFA, and ensure it manages its risks appropriately.

The Board is appointed by the Lieutenant Governor in Council and reports to the Minister through the Chair. The OFA Board performs a supervisory role. It oversees the management of the OFA and helps to ensure the OFA's mandate, as determined by the Province, is implemented effectively. The Board is comprised of both public servants employed by the Crown and independent directors. The Board meets at least quarterly and receives regular reports from the CEO and OFA staff concerning the operations of the OFA and its compliance with applicable laws and policies. Standards of conduct for Board members are set out in a Board approved Code of Conduct.

There are also two committees of the Board to assist it in supervising the management of the OFA. The Audit & Risk Management Committee approves an annual internal audit plan and liaises with the OFA's internal auditors and the Auditor General of Ontario regarding financial reporting and internal controls. It also reviews financial policies and financial statements and recommends them to the Board. Another function of the Audit & Risk Management Committee is the review of the OFA's major risks and mitigation strategies. The Human Resources Committee assists the Board in ensuring appropriate measures are in place relating to compensation for staff in critical areas.

The CEO may be appointed by the Lieutenant Governor in Council on the recommendation of the Minister or under Part III of the *Public Service Ontario Act, 2006*. The CEO is accountable to the Board, including the Chair, for the day-to-day management of the OFA and for the performance of any other functions assigned by the Board. The CEO is responsible for managing the ongoing activities of the OFA, including the supervision of staff. In addition, the CEO ensures that the OFA's policies and procedures remain relevant and effective.

The OFA's employees are appointed pursuant to the *Public Service of Ontario Act, 2006*.

Financial Reporting Requirements

The OFA prepares annual financial statements in accordance with the recommendations of the PSAB of the Canadian Institute of Chartered Accountants. The financial statements are reviewed and recommended by the Audit & Risk Management Committee and approved by the Board. The annual financial statements are audited by the Auditor General who expresses an opinion on whether they present the financial results fairly and in accordance with Canadian Public Sector Accounting Standards. The findings are reviewed by the Audit & Risk Management Committee and the Board. These audited financial statements are tabled in the Ontario Legislature as part of the Annual Report and are included as a schedule to the Public Accounts of the Province. Unaudited financial statements are prepared quarterly and presented to the Audit & Risk Management Committee and the Board.

Internal Controls

Management is responsible for establishing and maintaining internal controls to provide reasonable assurance regarding the reliability of financial reporting, to safeguard the OFA's assets and to manage its liabilities.

In meeting its responsibility for the reliability and timeliness of financial information, the OFA uses a comprehensive system of internal controls, including organizational and procedural controls. The system of internal controls includes:

- comprehensive business planning;
- written communication of policies and procedures governing corporate conduct and risk management;
- segregation of duties;
- maintenance and retention of detailed records;
- responsible delegation of authority and personal accountability;
- careful selection and training of personnel; and
- regularly updated accounting and financial risk policies.

As part of its annual business plan, the OFA conducts an assessment of corporate-wide risks and develops appropriate mitigation strategies.

The Ontario Internal Audit Division of the Ministry of Finance develops an annual internal audit plan based on its risk assessment and input from the OFA Audit & Risk Management Committee and Management. The internal audit plan is approved by the OFA Audit & Risk Management Committee. The Internal Audit Division reports to the OFA Audit & Risk Management Committee on the results of its audit work in the OFA. In 2011–12, the Internal Audit Division completed 464 audit days at the OFA, and 201 days at OEFC for functions executed by OFA staff on behalf of OEFC.

Board of Directors

The following individuals were members of the Board in 2011–12:

Steve Orsini
Chair, OFA Board of Directors
Deputy Minister of Finance and Secretary of Treasury Board

Date of Initial Appointment to OFA Board of Directors: December 17, 2011 (Pursuant to the *Capital Investment Plan Act, 1993*, the Deputy Minister of Finance is the Chair of the OFA Board of Directors.)

Steve was previously Deputy Minister of Revenue as well as Associate Deputy Minister, Office of Taxation, Agencies and Pensions in the Ministry of Finance. Steve played a leadership role in supporting the government's tax, benefits and pension reform agenda over the past few years.

Prior to returning to the Ministry of Finance in 2005, Steve held a number of positions at the Ontario Hospital Association, including Vice-President of Policy and Public Affairs.

Steve has extensive experience in the Ontario Public Service, having worked in the former Ministry of Treasury and Economics, the Service Sector Secretariat, the Ministry of Economic Development and Trade, and the Ontario Development Corporation.

Steve has a Bachelor of Applied Arts in Urban and Regional Planning and a Masters in Environmental Studies (Economic Development). He has also completed the Canadian Securities Course, two years of the CICA In-Depth Tax Course, and the Harvard University Health Care Leadership Program.

Mario Ferrara
Vice-Chair, OFA Board of Directors
Committees: Audit & Risk Management Committee, Member
Human Resources Committee, Member

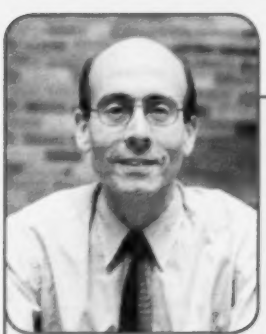
Date of Initial Appointment to OFA Board of Directors: April 2005

End of Current Term: May 2014

Before his appointment to the OFA Board, Mario was Managing Director and Head of the Government Finance Group at Scotia Capital in Toronto. The Group provided a wide range of financial advice and executed financing transactions for the firm's government and government-related clients.

Mario's investment management experience includes senior positions in the private and public sector. As Vice-President, Investments at E-L Financial Corporation, he was head of the investment group with direct responsibility for managing the fixed-income portfolios of the company's life and casualty insurance subsidiaries. Prior to joining E-L Financial, Mario spent 12 years at Ontario Hydro in a number of finance-related positions including portfolio manager of the fixed-income assets of the Ontario Hydro Pension Plan. Later at Ontario Hydro, he was Assistant Treasurer-Corporate with responsibility for management, development and execution of funding plans, investor relations and corporate insurance.

Mario holds a Bachelor of Commerce and a Master of Business Administration from McMaster University.



Gadi Mayman
Chief Executive Officer, OFA

Date of Initial Appointment to OFA Board of Directors: August 2000

End of Current Term: July 2014

As CEO of the OFA, Gadi is responsible for the Province's borrowing and debt management strategy, and its banking and capital markets relationships. He is also CEO and Vice-Chair of OEFC.

Prior to joining the Ontario Ministry of Finance, Gadi worked at the Export Development Corporation in Ottawa and in the International Division of the TD Bank. He received a Bachelor of Applied Science in Industrial Engineering from the University of Toronto in 1981, and a Master of Business Administration from the University of Western Ontario in 1988.

Gadi is on the boards of Infrastructure Ontario and the Ontario Capital Growth Corporation, and is Co-Chair of the Joint Nuclear Funds Investment Committee, a joint OFA and OPG Committee.

John M. Beck
Committee: Audit & Risk Management Committee, Member

Date of Initial Appointment to OFA Board of Directors: January 2011

End of Current Term: January 2014

John is founder, Chairman and Chief Executive Officer of Aecon Group Inc., Canada's largest publicly traded construction and infrastructure development company. Aecon is a leader in providing services to private and public sector clients throughout Canada and internationally.

John began his career in 1963, after graduating from civil engineering at Montreal's McGill University. In 1971, his company went public and John embarked on a strategy of mergers and acquisitions as well as rapid organic growth.

John and Aecon are innovators in terms of public-private partnerships and design-build-finance initiatives, and have successfully completed projects over the years in more than a dozen countries. In November 2008, John was cited by The Financial Post Magazine's "CEO Scorecard", as one of the top 20 most accomplished CEO's in Canada.

John is an active member of the business community. He was previously the Chairman of the Board of the Ontario Power Authority, a government agency with responsibility for planning and procuring all of the province's power needs for the next 20 years. He has also served on a number of non-profit boards involved in charities, health, education and the arts.

Lorraine Bell, CA

Committees: Audit & Risk Management Committee, Member
Human Resources Committee, Member

Date of Initial Appointment to OFA Board of Directors: October 2005

End of Current Term: January 2015

In addition to her OFA board appointment, Lorraine is also a Director, Chair of the Audit Committee, and member of the Governance Committee for Brookfield Real Estate Services Fund. She is also a Director and member of the Audit Committee of IBI Group. Lorraine has many years of experience in capital markets and in particular, derivatives. She was a Vice-President and Director with General Re Financial Products Canada (GRFP), a derivatives organization. Prior to joining GRFP, she worked as a financial consultant, and was at a number of corporations including Prudential Global Funding and Citibank Canada. Before Citibank Canada, Lorraine was with Touche Ross & Co (now Deloitte & Touche) as a member of the audit group and she obtained her CA designation at that time.

She is an active volunteer and past Board member of a number of charitable organizations in Ontario. Lorraine is also a member of the Institute of Corporate Directors and a Director of the Associates of the University of Toronto, Inc.

Angela Holtham

Committee: Audit & Risk Management Committee, Chair

Date of Initial Appointment to OFA Board of Directors: February 2011

End of Current Term: February 2014

Angela recently retired after 8 years as the Vice President, Finance, and CFO of The Hospital for Sick Children in Toronto. Prior to that, she held a number of positions in both the for-profit and not-for-profit sectors, including 20 years with Nabisco Canada, the last five of which she spent as Senior Vice President and CFO.

Angela holds a Master of Business Administration from the University of Toronto, and a Bachelor of Mathematics from the University of Waterloo. She is a Certified Management Accountant and was awarded the prestigious FCMA designation for her accomplishments in the community, the accounting profession, and the workplace.

Angela has held a number of Board positions including chair of the Board of CMA Ontario, and Board Director of Sprinkles Global Health Initiative.

Phil Howell

Committee: Audit & Risk Management Committee, Member

Date of Initial Appointment to OFA Board of Directors: September 2009

End of Current Term: September 2012

Phil was appointed the Chief Executive Officer and Superintendent, Financial Services Commission of Ontario effective August 19, 2009.

Previously, Phil served as the Deputy Minister of Economic Development for the Ontario government. Prior to that appointment, he was the Deputy Minister of Tourism. He moved to Tourism from the Ministry of Finance where he was the Associate Deputy Minister of Finance, responsible for Treasury Board.

Trained as an economist with postgraduate training from the London School of Economics and the University of Toronto, Phil's career has spanned over thirty years in both the public and private sectors beginning with the Bank of Canada. His Ontario Public Service (OPS) career began in the Economic Policy Branch in the former Ministry of Treasury, Economics and Intergovernmental Affairs.

He left the OPS in the mid-1980s and during the following several years worked with a major Canadian brokerage house, the Conference Board of Canada and a chartered bank. Phil returned to the OPS as director of the Industrial Policy Branch, Ministry of Industry, Trade and Technology where he spent several interesting and challenging years before returning to the Ministry of Finance as director of the Taxation Policy Branch in 1999. Subsequently, he served as the ADM of the Office of Economic Policy and the Chief Economist for the Province.

Richard J. Kostoff

Committee: Human Resources Committee, Vice-Chair

Date of Initial Appointment to OFA Board of Directors: June 2007

End of Current Term: June 2013

Richard is the founder and Chair of Temple Rock Holdings Inc., an active investment interest.

Richard is a former Deputy Chair of TD Securities Inc. Over the course of his career his senior management responsibilities have included fixed income sales and trading, derivative marketing and equity and debt capital markets origination. Richard is also a current board member of the OCAD University Foundation Board and the Chair of Theatrefront, a non-profit group. Additional appointments include the advisory board of CommunityLend and FemMed.

Richard has advised a number of government and corporate entities including GMP Inc., Infrastructure Ontario, GE Capital Canada, OPTrust, the Hospital for Sick Children and Theralase Technologies Inc.

Vincenza Sera

Committee: Audit and Risk Management Committee, Vice-Chair

Date of Initial Appointment to OFA Board of Directors: February 2011

End of Current Term: February 2014

Vincenza has been Chair of the Ontario Pension Board since 2007 having served as a board member since 2004.

Vincenza is a former investment banker with 25 years expertise in capital markets, corporate finance and corporate governance; she has held senior positions with major Canadian firms, including National Bank Financial and CIBC.

She holds a Master of Business Administration (Finance) from the University of Toronto, and an Honours Business Administration (Accounting) degree from the University of Windsor.

Vincenza has considerable experience on corporate and not-for-profit boards and is a member of the Institute of Corporate Directors.

Total Annual Remuneration paid to the Board of Directors: $26,550

Directors whose term ended during or after 2011–12

Peter Wallace, Chair, OFA Board of Directors
Appointment expired: December 16, 2011 upon ceasing to be the Deputy Minister of Finance

Robert Brown, FCA, Vice-Chair, OFA Board of Directors
Appointment expired: April 2011

Patrick Lavelle
Appointment expired: December 2011

Risk Management Policies and Procedures

OFA risk management policies and procedures provide for the management of risk exposures created by capital markets activities. Current policies and procedures address market, credit and operational risk exposures as they pertain to the Province's debt and derivatives portfolios and capital markets transactions.

The policies were developed following the guidelines and directives of regulatory bodies, such as the Office of the Superintendent of Financial Institutions of Canada, the Bank for International Settlements and in consultation with Canadian bank representatives on their risk management practices.

The Board approves risk management policies and monitors the performance of capital markets activities.

Market Risk Policy

Market risk is the risk of financial loss attributed to changes in interest rates and foreign exchange rates. This policy provides a framework for borrowing activities and integrates several aspects dealing with the management of market risk. The policy includes several limits:

- Foreign Exchange Limit: unhedged foreign currency exposure is limited to 5 per cent of debt issued for provincial purposes. Unhedged foreign exchange exposures are limited to Group of Seven currencies and the Swiss franc.

- Net Interest Rate Resetting Limit: the interest rate resetting risk exposure is the sum of maturities and floating-rate debt (net of liquid reserves) over the next 12 months, and is limited to a maximum of 35 per cent of debt issued for provincial purposes.

- IOD Loss Limit: the total amount of financial losses resulting from market risk cannot exceed 3 per cent of budgeted IOD for a fiscal year. In addition, the CEO establishes a trigger level to ensure losses from market activities will not reach the debt cost loss limit.

The OFA identifies and quantifies current and potential exposures to market risk and ensures risk exposures and losses remain within approved exposure and loss limits. Exposure to market risk is measured and reported daily.

Credit Risk Policy

Credit risk is the risk of loss in which a counterparty does not meet or defaults on its obligations. Credit risk arises when the OFA undertakes financial and derivative transactions. The minimum credit rating of a counterparty for a new swap transaction is typically "AA–", and "R1-mid" (and "A-1" or "P-1") for money market investments. The resulting exposure is capped at mark-to-market limits depending on the counterparty's credit rating and capital base. Concentration limits are also in place to limit exposure. Credit exposure is measured and reported daily.

Policy on the Use of Derivatives and Other Financial Instruments

Use of derivatives and other financial instruments is restricted to those which the OFA can price and whose risk exposures can be measured by the OFA. Derivatives are used to manage exposures arising from existing and planned debt issues in a sound and cost-effective manner. Risks arising from the use of derivatives are monitored and managed prudently.

Risk Management Reporting Policy

At its regular quarterly meetings, the Board is kept informed of the OFA's activities:

- The CEO provides the Board with a progress report on the implementation of the Province's borrowing and debt management programs for the year, staffing and other administrative and operational matters. The CEO also reports on the OFA's compliance with applicable government directives.

- The Director of Risk Control reports on program exposures and performance as well as exceptions to policies.

- Management is kept informed of OFA's risk exposures and positions on a daily basis.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people or systems or external events. Each division manages operational risk through reviews and improvements of work processes, documented policies and procedures, data processing systems, contingency plans and staff training.

The OFA maintains a Business Continuity Plan (which covers OEFC's operations) that is regularly updated to facilitate the continuation of essential operational functions with minimum disruption in the event of an emergency.

Appendices

Ontario's Credit Ratings

Additional Sources of Information

Ontario's Credit Ratings

A credit rating is a current assessment of the creditworthiness of a borrower with respect to a specified obligation. It indicates the capacity and willingness of a borrower to pay interest and principal in a timely manner.

Long-Term Ratings

Long-term ratings are assigned a letter grade ranging from investment grade, to speculative grade, to highly speculative or default. Ratings within each category may include a "+" or "–" (or a high or low) to indicate the relative strength of rating within that category. The current long-term ratings of the Province are as follows:

- Moody's Investors Service — Aa2
- Standard & Poor's — AA– (N)
- DBRS — AA (low)

Short-Term Ratings

Short-term ratings are for debt maturities of less than one year. Ratings are graded into several categories, ranging from the highest-quality obligations to default. The current short-term ratings of the Province are as follows:

- Moody's Investors Service — P-1
- Standard & Poor's — A-1+
- DBRS — R-1 (mid)

Additional Sources of Information

www.ofina.on.ca

The website provides information on Ontario's borrowing program and debt, and contains publications from the OFA.

Ontario Budget

The Borrowing and Debt Management chapter discusses the Province's borrowing and debt management activities for the fiscal year ended, and outlines the outlook for the upcoming fiscal year.

Quarterly Finances – OFA Bulletin

The OFA Bulletin provides quarterly updates of the government's annual budget forecast. The full set of quarterly finances information is also available on the Ministry of Finance website, www.fin.gov.on.ca.

Form 18-k

This is the Province's annual report to the U.S. Securities and Exchange Commission (SEC).

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